Topical index for 1991

Since 1945, CFA has been publishing a magazine containing matters of interest to the asset-based financial services industry, as well as to accountants, attorneys and students. The following topical index covers articles published from January 1991 to December 1991.

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When a bank wants to be paid...

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Step 9 The bank and the borrower structure an accelerated pay-down of the line and the bank "demands" a final pay-out in 90 days. The borrower's ability to operate is now being seriously impaired. The relationship has disintegrated. The balance of this scenario, sooner or later, is being etched in stone.

Step 10 Bankruptcy!!

The scenario described above is, unfortunately, an increasingly familiar one. What else could have been done? Answer: Act quickly and take these five decisive steps to accelerate repayment:

Step 1 Address the potential problem at the earliest possible time.

Step 2 Identify the source of the borrower's problem(s) and ways to resolve the problem(s). The source of, and solution(s) to, the borrower's problems can usually (in an over- simplification) be reduced to one or both of the following: 1)The borrower's overhead is out of line with revenues and sales. If this is the case, an immediate commitment by the borrower to reduce that overhead (including his salary and "expenses") must be structured. 2)The borrower has built marketing and other G & A to a point that sales and shipments have stretched cash flow dangerously thin. If this is the case, an immediate decision must be made to either (a)support the borrower's growth with adequate financing to allow for the realization of the anticipated profits from such growth, or (b)discuss with the borrower an immediate slow-down coupled with an aggressive reduction of the overhead created to support the anticipated growth. This should allow the borrower's cash flow and profitability to quickly catch up with the reduced growth.

The alternative described in Step 2, clause (b), is almost impossible to achieve with a small- or medium-sized company that is spearheaded by a "rugged, growth-oriented individual". Unfortunately, the bank does not have the time or resources necessary to accomplish the alternative described in Step 2, clause (a). So, what steps should be taken?

Step 3 Identify quickly those "non-bank" financial institutions that are structured to readily address the borrower's problems by providing monitoring, discipline and money to assist the borrower back to bankability. Because of the way in which these non-bank financial institutions are structured, they can comfortably assume certain credit risks that would be unacceptable to the bank.

Step 4 Ask the borrower to talk to these non-bank financial institutions immediately. If one of these companies advises that it is ready to finance the borrower's operations and to pay the bank out, then proceed to step 5.

Step 5 Firmly advise the borrower of a pay-out date that is fair and in keeping with your loan documents. Do not deviate from that pay-out date. The borrower must be motivated by the bank to "bite the bullet" and to use alternative financing as rapidly as possible. Any deviation from the pay-out date will quickly lead the bank back to the "difficult steps".

What will have been accomplished by the bank's aggressive, firm posture?

A) The bank will be paid out quickly (often in full)

B) A time-consuming, slowly deteriorating relationship between the borrower and the bank will be avoided;

C) The borrower will have been motivated to make the change early enough that more aggressive financing and the accompanying support systems can save his company and gradually bring it back to bankability; and

D) The depositor relationship may be salvaged during the turnaround process (non-bank financial institutions cannot provide depositor relationships).

It cannot be stressed enough that timing is the essential ingredient in this process. A non-bank financial institution cannot resurrect a financially "defunct" borrower (the result of the difficult steps). A non-bank financial institution does not want its client to fail (we all understand the ramifications of that event). Therefore, the earlier the bank motivates its borrower to consider a non-bank financial institution, the more rapid and successful will be the desired turnaround.